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SUMMARY (continued)

The Phibun regime in Siam is exploiting fear of communist unrest to further its political objectives (page 10).

The new French High Commissioner has optimistic ideas concerning the Franco-Vietnamese problem (page 11).

Current discussions between the Netherlands Foreign Minister and Republican Premier may represent a last chance to reach a negotiated settlement in Indonesia (page 11).

The Australian Government has acted quickly to curb a threatened Communist-led coal strike (page 12).

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SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

GENERALTrade agreement concluded with "sterling area" despite fears of Japanese "unfair" trade tactics

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Despite a generally cautious attitude toward revival of trade with Japan, countries continue to effect trade arrangements. A £55,000,000 (\$220,000,000) agreement has been signed with Japan by the UK and colonies (except Hong Kong), Australia, India, New Zealand and South Africa which should contribute to the stabilizing of the Japanese economy as well as the entire Far East. The agreement, covering the period from 1 July 1948 to 30 June 1949, represents an increase of Japan's trade with the whole "sterling area" of over three and one-half times.

The main goods to be exported by Japan are cotton textiles which account for a minimum of £ 16,000,000 of the £ 27,000,000 of Japanese sales, industrial machinery and parts, raw silk, rolling stock, caustic soda and other chemicals, rayon, wool and silk manufactures, paper and paper products, and bunker coal. The "sterling area" participants will furnish Japan with various goods worth about £ 23,000,000. These will include raw wool, iron ore, salt, raw cotton, cereals, petroleum, rubber, tin, jute, oil seeds, wool waste, coal, hides and skins, manganese, gums, resins, and shipping. The balance, about £ 4,500,000 will be offset against goods already delivered to Japan. Meanwhile, of course, sterling trade can continue between Japan and other countries in the "sterling area," e.g., Burma, Ceylon, and Iraq, under the provisions of the over-all sterling payments arrangement on a case-by-case basis or through bilateral arrangements, e.g., Pakistan.

The trade agreement will afford greater elasticity for Japan's trade in that it is a multilateral arrangement with important suppliers of Japan's needs in raw materials as well as traditional consumers of its products. It should be a tremendous boost to Japan's export level, which has been lagging seriously (See page 5).

On the other hand, the favorable progress being made in attempts to effect Japanese trade arrangements is tempered by a cautious attitude on the part of the other countries. For example, the current trade negotiations between Japan and Egypt are being complicated because Egypt fears that the price of Japanese exported goods will be fixed arbitrarily and that Egypt's markets will be flooded with products at a price with which Egyptian industry cannot compete. In addition, UK has expressed concern that a Burmese trade delegation now in Tokyo may offer rice for consumer and capital goods; the UK is anxious that Burma continue to handle all

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GENERAL (continued)

rice exports through the International Emergency Food Council.

These fears of Egypt and the UK reflect a general desire that post-war trade in the Far East be controlled so that Japan cannot gain its pre-war competitive advantages. Although considerable interest has been indicated by many countries in the revival of trade with Japan, its pre-war "dumping" tactics are obviously not forgotten. Moreover, since Japan is the logical source of manufactured goods for the other Far Eastern countries, it would be relatively easy for Japan, in the absence of international controls to get a disproportionate share of rice from the rice exporting countries through barter arrangements.

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JAPAN

Proposed delay of Japan banking reform another indication of slowness of Japanese economic recovery. The Departments of State, Army and Treasury and the Federal Reserve Board have expressed their concern that the proposed Japanese monetary and central banking reforms would be jeopardized if introduced in the present inflationary period before other fundamental measures are taken to stabilize the Japanese economy. Their view is that the establishment of these reforms should be an integral part of a coordinated stabilization program and should be introduced only after the success of that program is reasonably assured.

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The recommendation of the several Departments reflects the continued uncertainties in Japanese economic recovery. Already, the official five-year plan has been advanced one year, largely manifesting a slower improvement in Japanese exports than at first anticipated. The rate of recovery can be expected to be further decelerated by the cut in allotment of funds for "Operation Crank-up", currently estimated at approximately \$73,946,000 for the fiscal year 1949. This is about one-half of the amount originally requested of the US Congress for that purpose. As a result, estimates of imports which Japan must make in order to increase production for export have also had to be scaled down.

Diet dissolution prospects dim. Democratic-Liberal Party (D-L) hopes for an early dissolution of the Diet are being frustrated by: (1) apparent SCAP insistence on revision of the National Public Service Law (NPSL) in the present extraordinary session and (2) delaying tactics by opposition parties who command the majority. Premier Yoshida's Democratic-Liberals realize that the holding of early elections will enable them to capitalize on popular disgust with the parties of the previous coalition governments. Moreover, early elections offer prospects for achieving single party control of the government.

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Under the Japanese Constitution it is incumbent on the Diet to revise the NPSL to replace the interim cabinet ordinance issued to implement SCAP's "suggestion" of 23 July for the restriction of government workers' rights. The D-L realizes that introduction of the proposed revisions in the Diet would hurt its election prospects. Socialist objections to certain of the proposals and opposition disagreement generally with the D-L program will probably provoke considerable controversy and delay. It would seem, however, that SCAP views with disfavor a situation where the draft revisions might become an election issue and will insist on early passage of acceptable legislation.

The opposition parties have little to unite them at present besides

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JAPAN (Cont.)

their mutual interest in confounding Yoshida's program. The opposition's ability to use their Diet majority to frustrate D-L plans is well illustrated by the passage of a 21-day extension of the present Diet session over the opposition of D-L members who sought a much shorter extension.

KOREA

A movement for coalition with the North Korean regime may gather strength among South Koreans, unless the US indicates some intention of retarding the withdrawal of tactical troops. Many South Koreans fear that eventual Communist domination is inevitable in view of: (a) continued threats and rumors of an invasion by superior forces from North Korea following US troop withdrawal; (b) visible evidence of the imminent completion of that withdrawal; (c) the apparent inability of the Rhee government to improve the people's livelihood; and (d) the recently-demonstrated inefficiency of their own security forces due to insufficient training. This attitude, if it becomes general, will provide a fertile ground for exploitation by both the rightist followers of Kim Koo who want "unity" of North and South beyond any other consideration, and the Communists who hope for a bloodless coup to unite all Korea under their domination.

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In an attempt to prevent the spread of defeatism and to guarantee the survival of his government, President Rhee has requested the United States to postpone troop withdrawal until the Constabulary is better trained and until an additional internal security force of 50,000 "National Guardsmen" are trained and equipped by the United States. In addition to further training, the Constabulary will require additional screening to eliminate infiltrated Communists and rightist elements loyal to Kim Koo before the South Koreans will develop much faith in its capabilities.

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CHINA

Decisive battle for Central China has begun. Jumping off from their bases in south Shantung and east Honan, at least 18 Communist columns are sweeping down on both sides of Hsuehou in a pincer operation designed either to isolate that vital Nationalist base and destroy the last major obstacle to a Communist advance on Nanking or, by-pass Hsuehou and drive directly on Nanking. In either eventuality, little hope can be entertained that the Nationalist units in the area, being for the most part poor troops lacking the will to fight, will be able to withstand the coordinated Communist drive which combines the forces of CHEN Yi, LIU Po-cheng, and CHEN Keng. Late reports, as yet unconfirmed, state that the Communists have already occupied Hsuehou, perhaps in the wake of a hasty Nationalist evacuation. At this late date, the collapse of Nationalist defenses in this area might well mark the end of organized Nationalist military resistance.

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At present there is a lull in Communist activity in North China. In view of the general weakness of the Nationalists in the Peiping-Tientsin-Kalgan area, and the likelihood that FU Tso-yi will not stay and defend this sector, an early Communist occupation would appear quite simple. FU, in all likelihood, will attempt to return to his old stamping grounds in Suiyuan, but late Communist incursions into the province will make such a move on the part of FU extremely difficult. At present the Nationalist evacuations of Yingkou and Hulutao are completed, and the Communists claim that the port of Shanhaikuan has been occupied, thus completing the Nationalist eclipse in Manchuria.

The National Government is struggling to avert political collapse. Military disasters, failure of the economic reform measures, evacuation of Americans from the Nanking-Shanghai area, and the Republican defeat in US national elections are major factors in the current upheaval. A cabinet crisis was publicized when Prime Minister WONG Wen-hao submitted his resignation on 3 November. Governor T.V. SOONG of Kwangtung, Gen. HO Ying-chin, and former Prime Minister CHANG Chun have thus far declined to serve. A satisfactory solution of the cabinet problem is improbable, even though WONG Wen-hao has been prevailed upon to remain a few days longer. CHIANG Kai-shek has held consultations with CHANG Chih-chung, SHAO Li-tze, and Foreign Minister WANG Shih-chieh, who have advocated a peace settlement with the Communists. However, the Generalissimo's most recent statement suggests his continued reliance on personal followers, chiefly of the rightist groups of the Kuomintang, i.e., CC Clique, and his decision to attempt further resistance against the Communists.

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Desperate attempts to obtain US aid are being made by certain right-wing elements in the National Government. These officials, including CHIANG Kai-shek, as well as some pro-Government newspapers, are taking the line that China is the outpost of the Third World War, and the Chinese civil war is not merely the suppression of an internal revolt but a national war against the forces of Soviet Communism. Further efforts to force the US to render greater aid are reflected in the present attitude of the Legislative Yuan Foreign Affairs Committee which holds that the US is largely responsible for China's plight because of the Yalta Agreement, mediation efforts and insufficient aid, and, therefore, US military aid to the Nationalists is an obligation.

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Mukden, proving ground for Chinese Communist attitude toward US. The orderly and efficient Communist take-over of mukden has favorably impressed diplomatic officials there and has won the Communists wholehearted support from the populace. Thus far US consular property has in large been treated with deference and the Communists have apparently welcomed the decision of consular officials to remain in Mukden. However, the hand of the USSR is already apparent. Soviet trade representatives were present at a meeting of US, British, and French Consuls with the new Communist mayor of the city; and Soviet railway workers who left during the Nationalist occupation of Mukden are returning to the city where they will now be able to operate effectively. There is some indication that all foreign consular activities will be closely observed and probably hampered by the Communists. While the extremely correct attitude of the Communists may be merely intended to impress the foreigners, it is possible that the Chinese Communists hope to win the sympathy of the Western Powers in order to pave the way for international recognition and eventually to counterbalance the Soviet influence. At any rate it is an exceptional opportunity for the US to test its ability to operate with a Chinese Communist regime.

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Communists appeal to Nationalist generals to defect. The Chinese Communist radio has warned all Nationalist generals in North China to come over to the Communist side immediately or follow CHIANG Kai-shek to "the People's Court and to the tomb." Though aimed at higher officials and couched in more threatening terms, this is a further appeal for defection, a device which has already proven successful in the campaigns in Shantung and Manchuria and will probably succeed in other areas of China.

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MAO Tze-tung reaffirms Chinese Communist unity with the USSR. MAO Tze-tung, Chairman of the Central Committee of the Communist Party of China, and elected in 1935 to the Executive Committee of the

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Communist International, has reaffirmed Chinese Communist unity with the USSR in an article for a Soviet magazine. MAO writes that events have confirmed Stalin's 1918 statement that the Soviet October Revolution of 1917 "builds a bridge between the socialist West and the enslaved East, establishing a new revolutionary front against imperialism," and that events have further "proved the utter hypocrisy and bankruptcy" of those who seek a "middle road" between "imperialism and the Soviet Union." MAO writes that the revolution must everywhere be conducted by a "Lenin-Stalin type of revolutionary party," and that "the Communist Party of China...was established and developed with the Communist Party of the Soviet Union as a model." MAO recommends that "all revolutionary forces...organize an anti-imperialist front headed by the Soviet Union," in order to hasten the disintegration of the "rotten" but still strong forces headed by "American imperialism and its running dogs."

The above are the most aggressively pro-Soviet remarks which have been publicly attributed to MAO in recent years, and, if accepted without reservation, discredit reports that MAO leads that portion of the Chinese Communist Party which seeks to avoid subservience to the USSR. While it is highly probable that the Chinese Communists and the USSR will present a common front at least until a Communist-dominated government for all China comes to power, it remains possible that, after that time, perhaps in regard to Soviet attempts to annex Manchuria or to purge the Chinese Communist leadership, a schism will develop which would be to the possible advantage of the United States.

Riots, fantastic prices and cessation of business in Shanghai and Nanking characterize the near panic resulting from Nationalist military reverses and the Communist threat to the Yangtze Valley. In Shanghai the price of rice has risen to GY \$1,800 per picul of 170 pounds, representing an increase of 80 times over the ceiling price prevailing last week. The continued refusal of farmers to ship food to the cities for any price has heightened the critical food shortage in both cities. The universal reluctance to accept gold yuan clearly indicates that the National Government has lost complete control over the financial situation. Therefore, it is probable that the National Government, in recognition of its bankruptcy, will soon lift foreign exchange controls and permit free dealing in US currency and bullion.

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BURMA

Communists exploiting tense Karen-Burman relations. Burmese Communists "A" are apparently trying to improve their position by deliberately attempting to instigate communal warfare between Karens and Burmans. They are known to have led attacks upon the Karens who in some cases have retaliated. They have also encouraged, with some success, the rebellious elements of the Peoples' Volunteer Organization to join with them against the Karens. Similarly, the Socialists seem to be exploiting the anti-Karen sentiment prevalent among Burmans as a means of strengthening their domination of the Government. Meanwhile, the Regional Autonomy Committee, appointed by Prime Minister Thakin Nu, which is supposed to be investigating the validity of the claims of the ethnic minority groups, has done little to relieve the tension.

The Karen National Union (KNU), the most important Karen political organization, blames the Communists rather than the Government for the recent provocations, but is becoming increasingly irritated with the Government's failure to give the Karens adequate protection. Under present conditions it is doubtful that Karen leaders will be able to restrain their followers much longer. The KNU has now appointed a seven-man Action Committee and

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the Karens are better armed and organized than ever before. Unless the attacks upon the Karens are stopped and the Burmese Government takes positive steps to settle the Karen problem in the very near future, it is quite likely that the Karens will resort to a general armed uprising and will attempt to establish an independent state. Such a rebellion would be an extremely ferocious and bloody affair in which the Karens would probably receive some active support from other ethnic minorities.

SIA'

Communist apprehension exploited to further political objectives. The Phibul regime, while exhibiting some genuine apprehension that Communist-instigated unrest may also develop in Siam, is exploiting this fear to discredit the political activities of opposition groups. The Phibul regime, for example, has arrested not only army officers implicated in a recent abortive coup d'etat, but has also detained many Free Thai supporters of the principle opposition leader, self-exiled Elder statesman Pridi, currently villified as a Communist conspiring to overthrow the present government. "B"

Ostensibly in preparation for rumoured unrest, the Siamese Government has requested military assistance from the UK and the US. A "frontier peace and maintenance commission", headed by Premier Phibul Songgram, has also been formed. The new military organization, composed of six sub-committees, is expected to take the form of a national civilian force organized along the lines of the British Territorial Forces. If the program is implemented, the

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SIA' (continued)

first group of recruits should be ready for duty early next year. Although the political objectives of the Phibul regime are apparent, the Siamese armed forces, nevertheless, would be hard pressed to carry out effective suppressive measures in the event that externally organized disturbances arise in Siam.

INDOCHINANew French High Commissioner's opinion on Franco-Vietnamese problem.

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In a conversation with US Ambassador Caffery in Paris, the new French High Commissioner for Indochina, Léon Pignon, stated that the real extent of former Annamite emperor Bao Dai's support could not be determined until Bao Dai has returned to Indochina. Should Bao Dai be given an agreement in principle backed by adequate implementation, however, Pignon believes that the former emperor could obtain popular support and eventually cause defection of a large number of the non-Communist nationalists who support Ho Chi Minh and the Viet Minh. As for ratification of the 5 June Franco-Vietnamese Agreement, the new High Commissioner feels that this is not the appropriate time for such action. Instead, he believes that the French Government should present the Assembly with both a definite Indochina policy and an agreement made with Bao Dai, after which he expects positive approval and the necessary legislation for implementing the agreement to follow.

Although Pignon's optimistic opinions and plans have some merit, the new High Commissioner has apparently failed to realize that the old question of Bao Dai's ability to form a government of truly nationalist, capable and determined personalities, able to attract popular support, still remains. Even more important, it is not likely that Bao Dai will reach an agreement with the French Government prior to Assembly action. The problem, therefore, remains basically unchanged and Bao Dai's return as head of a Vietnam state will depend upon prompt and liberal implementation of the June agreement by the French Government.

INDONESIA

Last chance? Discussions being held currently between Netherlands Foreign Minister Stikker and Republican Premier Hatta may represent a last chance to reach a negotiated settlement in Indonesia. Considerable progress was made in initial talks on 4 November when both sides seemed willing to adjust their former positions. Stikker's colleagues in Batavia, however, appear to feel that his attitude toward the Republic is far too generous. If Stikker receives sufficient support from The Hague he may be able to override the more unconciliatory policy of certain officials in Batavia, including High Commissioner Reel and Commanding General Spoor.

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INDONESIA (continued)

Any agreement resulting from the Hatta-Stikker talks would presumably be referred to the UN Good Offices Committee (GOC) in order that final settlement might be reached within that body. Herle Cochran, US Delegate to the GOC, regards these conversations as a useful preliminary measure for bringing the parties together in final GOC negotiations, and has used every possible means to insure a congenial atmosphere for the talks.

The divided nature of Dutch policy on Indonesia has become more apparent in recent weeks. While the Stikker-Hatta talks offer an example of Dutch good will toward the Republic, Dutch propaganda efforts regarding Republican truce violations give the impression that they are preparing to initiate police action.

AUSTRALIA

Government acts quickly to curb threatened Communist-led coal strike. "B"
The New South Wales Government has moved swiftly to curb a Communist-led work stoppage in the Australian coal fields by ordering the men back to work. The strike, ostensibly a jurisdictional dispute between the Australian Workers Union and the Miners Federation, a Communist-dominated union, developed over a disagreement on whether the men should cut a tunnel as members of the Union or the Federation.

For the first time the Labor Government has indicated a willingness to grapple with the situation by sharply criticizing the action of the miners and strongly supporting the position taken by the State Government in ordering the miners back to work under a compulsory arbitration scheme. The Cabinet is also reported to be preparing emergency legislation should the miners defy the NSW Government order. A prolonged coal strike at this time would not only have a dangerous effect upon the Australian economy but would also seriously threaten the political future of the Australian Labor Party. The strong position taken by the Government in the current dispute indicates an awareness of both dangers and may lead to further action by the Labor Government to curtail Communist influence in Australian industry.

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